

FINANCIAL REPORT  
LITTLE TRAVERSE TOWNSHIP  
EMMET COUNTY, MICHIGAN  
March 31, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Little Traverse Township</b>	County <b>Emmet</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>9/8/04</b>	Date Accountant Report Submitted to State: <b>9/23/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus and Co.,LLP</b>			
Street Address <b>923 Sprng Street, P.O. Box 695</b>	City <b>Petoskey</b>	State <b>MI</b>	ZIP <b>49770</b>
Accountant Signature <i>Saurie A. Damberg CPA</i>		Date <b>9/23/04</b>	

**LITTLE TRAVERSE TOWNSHIP  
FINANCIAL REPORT  
Year Ended March 31, 2004**

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# Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

September 8, 2004

Township Board  
Little Traverse Township  
Emmet County, Michigan

## Independent Auditors' Report

We have audited the accompanying financial statements of Little Traverse Township, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Little Traverse Township, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged as auditors of the Township until the end of the fiscal year, and our engagement did not include the performance of procedures necessary to enable us to satisfy ourselves as to the account balances as of April 1, 2003.

As described in Note 1, Little Traverse Township, Michigan, prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we performed procedures on the April 1, 2003 account balances, as explained above, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Little Traverse Township, Michigan, as of March 31, 2004, and the revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as additional information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of Little Traverse Township, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**LITTLE TRAVERSE TOWNSHIP**  
**COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**March 31, 2004**

	Governmental Fund Type General	Proprietary Fund Type Enterprise	Fiduciary Fund Types Trust and Agency
<b><u>Assets</u></b>			
Cash	\$ 180,674	\$ 159,482	\$ 644,391
Restricted assets (cash):			
Reserved for bond principal, interest and 2003 watermain project.	-	184,052	-
Property, plant and equipment	-	1,268,788	-
Other assets	-	9,358	-
Amount to be provided for general long-term debt	-	-	-
Total assets	<u>\$ 180,674</u>	<u>\$ 1,621,680</u>	<u>\$ 644,391</u>
<b><u>Liabilities and Fund Equity</u></b>			
Liabilities:			
Due to other governmental units	\$ 641	\$ -	\$ 644,391
Bonds payable	-	144,593	-
Purchase agreement payable	-	145,407	-
Note payable	-	-	-
Total liabilities	<u>641</u>	<u>290,000</u>	<u>644,391</u>
Fund Equity:			
Investment in general fixed assets	-	-	-
Contributed capital	-	1,466,892	-
Retained earnings:			
Unreserved (deficit)	-	(135,212)	-
Fund balance:			
Unreserved:			
Undesignated	<u>180,033</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>180,033</u>	<u>1,331,680</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 180,674</u>	<u>\$ 1,621,680</u>	<u>\$ 644,391</u>

See accompanying notes to financial statements.

Account Groups		Total (Memorandum Only)
General Fixed Assets	General Long-Term Debt	
\$ -	\$ -	\$ 984,547
-	-	184,052
960,019	-	2,228,807
-	-	9,358
-	100,000	100,000
<u>\$ 960,019</u>	<u>\$ 100,000</u>	<u>\$ 3,506,764</u>

\$ -	\$ -	\$ 645,032
-	-	144,593
-	-	145,407
-	100,000	100,000
-	100,000	1,035,032
960,019	-	960,019
-	-	1,466,892
-	-	(135,212)
-	-	180,033
960,019	-	2,471,732
<u>\$ 960,019</u>	<u>\$ 100,000</u>	<u>\$ 3,506,764</u>

LITTLE TRAVERSE TOWNSHIP  
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended March 31, 2004

	<u>General Fund</u>
Revenues collected:	
Taxes	\$ 186,280
State grants	162,202
Charges for services	13,102
Interest and rentals	4,498
Other	<u>4,232</u>
Total revenues collected	<u>370,314</u>
Expenditures paid:	
Legislative	10,427
General government	202,562
Public safety	74,613
Public works	401
Recreation and cultural	18,235
Debt service	<u>54,550</u>
Total expenditures paid	<u>360,788</u>
Excess (deficiency) of revenues collected over expenditures paid before operating transfers	  9,526
Other financing sources (uses):	
Operating transfer out	<u>(10,000)</u>
Excess (deficiency) of revenues collected over expenditures paid	 (474)
Fund balance, beginning	<u>180,507</u>
Fund balance, ending	<u><u>\$ 180,033</u></u>

LITTLE TRAVERSE TOWNSHIP  
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
BUDGET AND ACTUAL  
Year Ended March 31, 2004

	General Fund		
	Budget	Actual	Over/(Under) Budget
Revenues collected:			
Taxes	\$ 188,000	\$ 186,280	\$ (1,720)
State grants	162,000	162,202	202
Charges for services	12,000	13,102	1,102
Interest and rentals	4,000	4,498	498
Other	3,600	4,232	632
Total revenues collected	<u>369,600</u>	<u>370,314</u>	<u>714</u>
Expenditures paid:			
Legislative	10,000	10,427	427
General government	209,300	202,562	(6,738)
Public safety	76,600	74,613	(1,987)
Public works	1,000	401	(599)
Recreation and cultural	17,900	18,235	335
Debt service	53,000	54,550	1,550
Total expenditures paid	<u>367,800</u>	<u>360,788</u>	<u>(7,012)</u>
Excess (deficiency) of revenues collected over expenditures paid before operating transfers	1,800	9,526	7,726
Other financing sources (uses):			
Operating transfer out	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Excess (deficiency) of revenues collected over expenditures paid	(8,200)	(474)	7,726
Fund balance, beginning	<u>180,507</u>	<u>180,507</u>	<u>-</u>
Fund balance, ending	<u>\$ 172,307</u>	<u>\$ 180,033</u>	<u>\$ 7,726</u>



LITTLE TRAVERSE TOWNSHIP  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENSES PAID AND  
 CHANGES IN RETAINED EARNINGS  
 ENTERPRISE FUNDS  
 Year Ended March 31, 2004

Operating revenues collected:	
Charges for services	\$ 430,460
Operating expenses paid:	
Sewer service fees	209,841
Contracted debt service	147,876
Contracted service	31,847
Maintenance	53,281
Wages and expenses	6,194
Supplies and miscellaneous	8,556
Depreciation	62,583
Amortization	2,041
Total operating expenditures paid	522,219
Operating income (loss)	(91,759)
Nonoperating revenues collected (expenses paid):	
Hook-up fees	4,000
State grants	13,257
Interest	15,150
Interest expense	(8,570)
Total nonoperating revenues collected (expenses paid)	23,837
Net income (loss) before operating transfers	(67,922)
Other financing sources (uses):	
Operating transfer in	10,000
Net income (loss)	(57,922)
Retained earnings (deficit), beginning	(77,290)
Retained earnings (deficit), ending	\$ (135,212)

LITTLE TRAVERSE TOWNSHIP  
COMBINED STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
Increase (Decrease) in Cash  
Year Ended March 31, 2004

Cash flows from operating activities:	
Cash received from customers	\$ 430,460
Cash payments to suppliers for goods and services	(450,368)
Cash payments to employees for services	<u>(7,227)</u>
Net cash provided by (used in) operating activities	<u>(27,135)</u>
Cash flows from non-capital financing activities:	
State grants	13,257
Operating transfers in from other funds	<u>10,000</u>
Total cash flows from non-capital financing	<u>23,257</u>
Cash flows from capital financing activities:	
Capital lease proceeds	170,000
Principal paid on special assessment bonds	(50,000)
Interest paid on special assessment bonds	(8,570)
Construction in progress- 2003 water main	(59,710)
Capital contributed by customers	27,934
Cash provided by miscellaneous non-operating activities	<u>4,000</u>
Net cash provided by (used in) capital and related financing activities	<u>83,654</u>
Cash flows from investing activities:	
Interest earned	<u>15,150</u>
Net increase (decrease) in cash	94,926
Cash at beginning of year	<u>248,608</u>
Cash at end of year	<u><u>\$ 343,534</u></u>
Reconciliations of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>\$ (91,759)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization	2,041
Depreciation	<u>62,583</u>
Total adjustments	<u>64,624</u>
Net cash provided by (used in) operating activities	<u><u>\$ (27,135)</u></u>

See accompanying notes to financial statements.

**LITTLE TRAVERSE TOWNSHIP**  
**NOTES TO CASH BASIS FINANCIAL STATEMENTS**  
**Year Ended March 31, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Little Traverse Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire protection, sanitary sewer, water, culture, public improvements, planning and zoning and general administrative services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present Little Traverse Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. On this basis, the financial statements of the local school district and cemetery have not been included in the report.

The accounting policies of Little Traverse Township conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**A. Fund Accounting**

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues collected and expenditures/expenses paid, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

**GOVERNMENTAL FUNDS**

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**PROPRIETARY FUNDS**

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues collected, expenses paid, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**FIDUCIARY FUNDS**

Agency Funds - Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. They are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### A. Fund Accounting - Continued

##### ACCOUNT GROUPS

General Fixed Assets Account Group - This account group presents the fixed assets of the Township utilized in its general operations. General fixed assets purchased are recorded as expenditures in the General Fund at time of purchase. In establishing the General Fixed Asset Account Group, the Township used the fair market value of the assets. No depreciation has been provided on general fixed assets.

Long-Term Debt Account Group - The Long-Term Debt is neither a fund nor does it reflect available financial resources and related liabilities or the measurement of results of operations. The Long-Term Debt Account Group is used to record the outstanding debt of the Township.

#### B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and proprietary funds of the Township are accounted for using the cash basis of accounting. Revenues are recognized when collected and expenditures/expenses are recognized when paid.

#### C. Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Supervisor submits to the Township board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an appropriation act.
4. The budget is adopted at the total fund level on a basis consistent with cash basis accounting principles. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year, and lapse at year-end.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### D. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable available financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets purchased and used in governmental fund type operations are recorded as expenditures in the General Fund at the time of purchase.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered "available spendable resources," since they do not represent net current assets. Noncurrent portions of long-term receivables are offset by fund balance reserve accounts.

The General Fixed Asset Group of Accounts is not a fund. It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

#### E. Total Column on Combined Statements

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

#### F. Cash Equivalents

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of three months or less when acquired are considered to be cash equivalents.

#### G. Financial Statements Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 2: COMPLIANCE WITH FINANCE RELATED PROVISIONS

#### Sinking Fund

To comply with a 1993 water system purchase agreement, the Water Utility Fund is required to reserve in a sinking fund, a portion of annual service charges for use in future repair and replacement of systems assets. At March 31, 2004, the sinking fund should be \$513,713, however, due to the deficit retained earnings; there is no restriction at March 31, 2004.

#### Restricted Cash

There are a number of limitations and restrictions contained in the various bond indentures. The Township is in compliance with all significant limitations and restrictions except the 1993 Special Assessment Bond Ordinance provision, which states that the Township shall set aside money from collections from said special assessments as security for payment of the bonds. The Township was required to restrict \$120,000, but was only able to restrict \$73,762.

### NOTE 3: CASH-INSURED DEPOSITS

Pooling of Cash – The Township pools cash to maximize its investment return.

<u>Fund</u>	<u>Pooled Cash</u>
General	\$ 180,674
Sewer	159,482
Water	184,052
Agency	<u>644,391</u>
Total pooled cash	<u>\$1,168,599</u>
Unrestricted cash	\$ 984,547
Restricted cash	<u>184,052</u>
Total cash	<u>\$1,168,599</u>

At March 31, 2004, the carrying amount of the Township's deposits was \$1,168,599 and the bank balance was \$1,175,997. Of the bank balance, \$100,567 was covered by federal depository insurance. The remaining \$1,075,430 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Michigan Compiled Laws, Section 129.91, authorized the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 4: RESTRICTED CASH

The Water Utility Fund has restricted \$ 73,762 for 1993 Special Assessment Districts No. 93-1W, 93-2W, and 93-3WS bonds, bond principal and interest payments. Monies collected (including principal, interest and penalties) from special assessments are to be restricted for bond principal payments. An additional \$120,000 of principal will be collected through the year 2008.

The water utility fund has restricted \$110,290 for 2003 special assessment District No. 03-1 which was received as part of a capital lease agreement for the new water mains.

### NOTE 5: PROPERTY TAX

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied in December and are payable from December through February 14. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental unit's taxes and remittances of them to units are accounted for in the Agency Fund. Property tax revenues are recognized when collected.

The Township is permitted by state law, subject to State Headlee and Truth-in-Taxation provisions, to levy taxes up to \$1 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for payment of principal and interest on general obligation long-term debt.

The 2003 State taxable valuation of Little Traverse Township totaled \$192,492,275 on which ad valorem taxes levied consisted of .9519 mills for Little Traverse Township operating purposes. This amount is recognized in the General Fund.

### NOTE 6: PROPRIETARY FUND TYPE PROPERTY, PLANT AND EQUIPMENT

A summary of proprietary fund type property, plant and equipment at March 31, 2004, follows:

Water system	\$1,877,490
Construction in progress	59,710
Less: accumulated depreciation	<u>668,412</u>
Net	<u>\$1,268,788</u>

Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. The estimated useful life of the Phase I, II and III water system is 30 years.

# **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

## **NOTE 7: CHANGES IN GENERAL FIXED ASSETS**

A summary of changes in general fixed assets follows:

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2004</u>
Buildings and Parks	\$823,453	\$ 47,038	\$ -	\$870,491
Equipment	<u>84,333</u>	<u>5,195</u>	<u>-</u>	<u>89,528</u>
Total	<u>\$907,786</u>	<u>\$ 52,233</u>	<u>\$ -</u>	<u>\$960,019</u>

## **NOTE 8: OTHER ASSETS**

Other assets at March 31, 2004, are amortized using the straight line method over their estimated useful life as follows:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Estimated Useful Life</u>
Bond Issue Cost	\$30,618	\$21,260	\$9,358	15 Years

## **NOTE 9: LONG-TERM DEBT**

The following is a summary of changes in long-term indebtedness by the enterprise fund and the general long-term debt account group:

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance March 31, 2004</u>
Enterprise Funds:				
Water	\$ 150,000	\$170,000	\$30,000	\$290,000
General long-term debt:	<u>150,000</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Total long-term debts:	<u>\$ 300,000</u>	<u>\$170,000</u>	<u>\$80,000</u>	<u>\$390,000</u>

Long-term indebtedness at March 31, 2004 is composed of the following:

### Special assessment bond

\$375,000 1993 Watermain Special Assessment Districts No.93-1W, 93-2W, and 93-3WS bonds due in annual installments of \$30,000 principle only through 2007; interest at 5.1 to 5.25 percent.

\$120,000

### Special assessment capital lease

\$170,000 2003 Capital lease agreement for acquisition of watermain due in annual installments of \$27,252; interest at 3.46 percent, through 2010.

170,000

### General obligation

\$275,000 Township Hall Property Note Payable due in annual installments of \$45,000 to \$50,000 beginning in 2002 through 2005; interest at 5.3 percent

100,000

Total long-term indebtedness

\$390,000



## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 9: LONG-TERM DEBT – CONTINUED

The annual requirements to amortize all debt outstanding as of March 31, 2004, including interest payments of \$44,317 are as follows:

	<u>General Obligation</u>	<u>Special Assessments</u>	<u>Total</u>
2004	\$ 55,300	\$ 63,462	\$ 118,762
2005	52,650	61,932	114,582
2006	-	60,387	60,387
2007	-	58,828	58,828
2008	-	27,253	27,253
2009-2010	<u>-</u>	<u>54,505</u>	<u>54,505</u>
	<u>\$107,950</u>	<u>\$326,367</u>	<u>\$ 434,317</u>

### NOTE 10: CHANGES IN CONTRIBUTED CAPITAL

A summary of changes in contributed capital follows:

	<u>Water Utility</u>
Balance - April 1, 2003	\$1,438,958
Additions:	
Special Assessments	<u>27,934</u>
Balance - March 31, 2004	<u>\$1,466,892</u>

### NOTE 11: RETAINED EARNINGS DEFICIT

The Water Utility Fund has a retained earnings deficit in the amount of \$294,694 at March 31, 2004. Public Act 275 of 1980 requires that Little Traverse Township file a deficit elimination plan within 90 days after year end for each fund that ended that year in a deficit condition. The Township has not yet filed the required plan.

### NOTE 12: RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Township belongs to the Michigan Township Participating Plan, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100% of its claims.

The Township also belongs to the Michigan Municipal Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Township pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 13: COMMITMENTS

Sewer Fund - The Township is a participant in a joint sewage disposal system administered by the Harbor Springs Area Sewage Disposal Authority and is committed to share in a portion of all costs, including principal and interest on long-term debt. The Township's portion of long-term debt consists of the following bond issues.

1988 refunding bonds due in annual installments varying from \$12,144 to \$18,216 through January 1, 2009 plus interest at 8.0%	\$ 80,960
1989 serial bonds due in annual installments varying from \$18,080 to \$28,928 through September 1, 2009 plus interest at 9.3% to 7.0%	<u>146,448</u>
Total long-term debt	<u>\$227,408</u>

The annual requirements to amortize the Township's portion of these debts outstanding as of March 31, 2004, including interest payments of \$46,174 are as follows:

<u>Year Ending March 31</u>	<u>Amount</u>
2005	\$ 48,721
2006	48,942
2007	48,941
2008	48,728
2009	48,310
2010	<u>29,940</u>
	<u>\$273,582</u>

In January, 2002, Little Traverse Township, along with the Harbor Springs Area Sewage Disposal Authority, the City of Harbor Springs, Littlefield Township and The Village of Alanson agreed to construct a new wastewater treatment facility and close the Authority's existing system. Bonds in the amount of \$7,000,000 were issued to pay for the construction. The Township currently is paying a portion of the costs, but a payment schedule has not been finalized as of March 31, 2004, the Township has paid \$108,287 in interest, no principle has been paid.

The Township has entered into a contract for watermain construction in the amount of \$109,170. As of March 31, 2004, \$43,198 has been paid, a commitment of \$65,972 remained at March 31, 2004 for completion of the contract.

### NOTE 14: SUBSEQUENT EVENTS

In April 2004, The Township approved a contract for a beach project in the amount of \$19,330.

In June, 2004, the Township approved a road project with the Michigan Department of Transportation and the Emmet County Road Commission. The Township's estimated cost for the project is \$131,000.

ADDITIONAL INFORMATION

GENERAL FUND

To account for resources traditionally associated with governments  
which are not required to be accounted for in another fund.

**LITTLE TRAVERSE TOWNSHIP**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES PAID - BUDGET AND ACTUAL**  
**Year Ended March 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>
Expenditures paid:			
Legislative:			
Township board	\$ 10,000	\$ 10,427	\$ 427
General government:			
Supervisor	11,000	8,934	(2,066)
Clerk	6,700	6,474	(226)
Treasurer	18,500	18,472	(28)
Board of review	1,500	1,447	(53)
Assessor	30,000	30,425	425
Legal	10,600	9,849	(751)
Elections	100	24	(76)
Township hall	109,000	105,637	(3,363)
Insurance	14,000	13,863	(137)
Cemetery	3,000	2,625	(375)
Other general services	4,900	4,812	(88)
Total general government	<u>209,300</u>	<u>202,562</u>	<u>(6,738)</u>
Public safety:			
Fire and police protection	53,600	54,395	795
Zoning	23,000	20,218	(2,782)
Total public safety	<u>76,600</u>	<u>74,613</u>	<u>(1,987)</u>
Public works:			
Highways and streets	1,000	401	(599)
Recreation and cultural:			
Township parks	16,000	15,889	(111)
Recreation	1,900	2,346	446
Total recreation and cultural	<u>17,900</u>	<u>18,235</u>	<u>335</u>
Debt service:			
Principal	50,000	50,000	-
Interest	3,000	4,550	1,550
Total debt service	<u>53,000</u>	<u>54,550</u>	<u>1,550</u>
Total expenditures paid	<u>\$ 367,800</u>	<u>\$ 360,788</u>	<u>\$ (7,012)</u>

## ENTERPRISE FUNDS

Water Utility and Sewage Disposal Utility Funds - To account for the provision of water and sewer services to residents of the township. All activities related to such services are accounted for in the water utility and sewage disposal funds which are generally self-supporting. Primary financing is provided through user charges.

LITTLE TRAVERSE TOWNSHIP  
ENTERPRISE FUNDS  
COMBINING STATEMENT OF ASSETS AND  
LIABILITIES ARISING FROM CASH TRANSACTIONS  
March 31, 2004

<u>Assets</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Totals</u>
Current assets:			
Cash	\$ -	\$ 159,482	\$ 159,482
Restricted assets:			
Cash for bond principal, interest and 2003 watermain project.	184,052	-	184,052
Property, plant and equipment	1,937,200	-	1,937,200
Less: accumulated depreciation	668,412	-	668,412
Net property, plant and equipment	1,268,788	-	1,268,788
Other assets:			
Bond issue cost (net of accumulated amortization of \$21,260)	9,358	-	9,358
Total other assets	9,358	-	9,358
Total assets	<u>\$ 1,462,198</u>	<u>\$ 159,482</u>	<u>\$ 1,621,680</u>
<u>Liabilities and Fund Equity</u>			
Current liabilities:			
Current portion of long-term debt	\$ 54,593	\$ -	\$ 54,593
Long-term liabilities:			
Capital lease payable	145,407	-	145,407
Special assessment bonds payable	90,000	-	90,000
Total long-term liabilities	235,407	-	235,407
Total liabilities	290,000	-	290,000
Fund equity:			
Contributed capital	1,466,892	-	1,466,892
Retained earnings:			
Unreserved (deficit)	(294,694)	159,482	(135,212)
Total fund equity	1,172,198	159,482	1,331,680
Total liabilities and fund equity	<u>\$ 1,462,198</u>	<u>\$ 159,482</u>	<u>\$ 1,621,680</u>

LITTLE TRAVERSE TOWNSHIP  
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENSES PAID AND  
CHANGES IN RETAINED EARNINGS  
ENTERPRISE FUNDS  
Year Ended March 31, 2004

	Water Utility	Sewer Utility	Totals
Operating revenues collected:			
Charge for services	\$ 89,146	\$ 341,314	\$ 430,460
Operating expenses paid:			
Sewer service fees	-	209,841	209,841
Contracted debt service	-	147,876	147,876
Contracted service	31,847	-	31,847
Maintenance	53,281	-	53,281
Wages and expenses	1,804	4,390	6,194
Supplies and miscellaneous	3,133	5,423	8,556
Depreciation	62,583	-	62,583
Amortization	2,041	-	2,041
Total operating expenditures paid	154,689	367,530	522,219
Operating income (loss)	(65,543)	(26,216)	(91,759)
Nonoperating revenues collected			
(expenses paid):			
Hook-up fees	4,000	-	4,000
State grants	13,257	-	13,257
Interest revenue	13,160	1,990	15,150
Interest expense	(8,570)	-	(8,570)
Total nonoperating revenues			
collected (expenses paid)	21,847	1,990	23,837
Net income (loss) before operating			
transfers	(43,696)	(24,226)	(67,922)
Other financing sources (uses):			
Operating transfers in	10,000	-	10,000
Net income (loss)	(33,696)	(24,226)	(57,922)
Retained earnings (deficit), beginning	(260,998)	183,708	(77,290)
Retained earnings (deficit), ending	\$ (294,694)	\$ 159,482	\$ (135,212)



**LITTLE TRAVERSE TOWNSHIP**  
**COMBINING STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**Increase (Decrease) in Cash**  
**Year Ended March 31, 2004**

	Water Utility	Sewer Utility	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 89,146	\$ 341,314	\$ 430,460
Cash payments to suppliers for goods and services	(88,261)	(362,107)	(450,368)
Cash payments to employees for services	(1,804)	(5,423)	(7,227)
Net cash provided by (used in) operating activities	(919)	(26,216)	(27,135)
Cash flows from non-capital financing activities:			
State grants	13,257	-	13,257
Operating transfers in from other funds	10,000	-	10,000
Total cash flows from non-capital financing	23,257	-	23,257
Cash flows from capital financing activities:			
Capital lease proceeds	170,000	-	170,000
Principal paid on special assessment bonds	(50,000)	-	(50,000)
Interest paid on special assessment bonds	(8,570)	-	(8,570)
Construction in progress- 2003 water main	(59,710)	-	(59,710)
Capital contributed by customers	27,934	-	27,934
Cash provided by miscellaneous non- operating activities	4,000	-	4,000
Net cash provided by (used in) capital and related financing activities	83,654	-	83,654
Cash flows from investing activities:			
Interest earned	13,160	1,990	15,150
Net increase (decrease) in cash	119,152	(24,226)	94,926
Cash at beginning of year	64,900	183,708	248,608
Cash at end of year	<u>\$ 184,052</u>	<u>\$ 159,482</u>	<u>\$ 343,534</u>
Reconciliations of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (65,543)	\$ (26,216)	\$ (91,759)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization	2,041	-	2,041
Depreciation	62,583	-	62,583
Total adjustments	64,624	-	64,624
Net cash provided by (used in) operating activities	<u>\$ (919)</u>	<u>\$ (26,216)</u>	<u>\$ (27,135)</u>

**LITTLE TRAVERSE TOWNSHIP  
WATER FUND  
SCHEDULE OF INDEBTEDNESS  
March 31, 2004**

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity May 1,</u>	<u>Total Outstanding at March 31, 2004</u>	<u>Annual Interest Payable</u>
1993 Watermain special assessment bond	November 1, 1993	\$ 375,000	5.10%	2004	\$ 30,000	\$ 6,210
			5.15%	2005	30,000	4,680
			5.20%	2006	30,000	3,135
			5.25%	2007	30,000	1,575
					<u>\$ 120,000</u>	<u>\$ 15,600</u>

Call provision:

Bonds maturing in the years 2002 to 2007, inclusive, shall be subject to redemption prior to maturity, at the option of the Township, in any order, in whole or in part, in integral multiples of \$5,000, on any interest payment date on or after November 1, 2000. Bonds called for redemption shall be redeemed at par and accrued interest to the date fixed for redemption. Plus a premium expressed in percentage of par value as follows:

For the fiscal year ended 2002 to thereafter

0.0%

LITTLE TRAVERSE TOWNSHIP  
WATER FUND  
SCHEDULE OF INDEBTEDNESS  
March 31, 2004

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity May 1,</u>	<u>Total Outstanding at March 31, 2004</u>	<u>Annual Interest Payable</u>
2003 special assessment capital lease	November 18, 2003	\$ 170,000	3.46%	2004	\$ 24,593	\$ 2,659
			3.46%	2005	22,221	5,031
			3.46%	2006	22,990	4,262
			3.46%	2007	23,786	3,467
			3.46%	2008	24,609	2,644
			3.46%	2009	25,460	1,792
			3.46%	2010	26,341	912
					<u>\$ 170,000</u>	<u>\$ 20,767</u>

AGENCY FUND

Agency Fund - To account for the collection and payment of amounts received by the Township in an agency capacity.

LITTLE TRAVERSE TOWNSHIP  
AGENCY FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004
<b><u>Assets</u></b>				
Cash	\$ 17,912	\$ 5,677,179	\$ 5,050,700	\$ 644,391
<b><u>Liabilities</u></b>				
Due to other taxing units:				
State of Michigan	\$ -	\$ 924,844	\$ 879,475	\$ 45,369
County	1,527	1,014,298	845,689	170,136
Cemetery	-	29,445	24,475	4,970
Schools:	-			
Harbor Springs	-	2,041,568	1,813,102	228,466
Petoskey	-	280,371	247,906	32,465
Littlefield	-	59,375	55,145	4,230
Char-Em Intermediate	-	467,513	388,974	78,539
North Central Michigan College	-	412,697	344,278	68,419
Miscellaneous	16,385	92,778	97,366	11,797
Total due to other taxing units	17,912	5,322,889	4,696,410	644,391
Due to other funds:				
General	-	169,449	169,449	-
Water & Sewer	-	184,841	184,841	-
Total due to other funds	-	354,290	354,290	-
Total liabilities	\$ 17,912	\$ 5,677,179	\$ 5,050,700	\$ 644,391

LITTLE TRAVERSE TOWNSHIP  
GENERAL LONG-TERM DEBT ACCOUNT GROUP  
STATEMENT OF GENERAL LONG-TERM DEBT  
March 31, 2004

**Assets**

Amount to be provided for  
general long-term debt

\$ 100,000

**Liabilities**

1995 Township property  
note payable

\$ 100,000

LITTLE TRAVERSE TOWNSHIP  
GENERAL LONG-TERM DEBT ACCOUNT GROUP  
SCHEDULE OF INDEBTEDNESS  
March 31, 2004

<u>Payable To:</u>	Fifth Third Bank
<u>Purpose:</u>	Township Property Purchase
<u>Date of Agreement:</u>	1995
<u>Rate of Interest</u>	5.30%
<u>Original Obligation:</u>	<u>\$ 275,000</u>

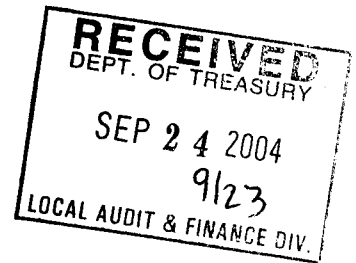
<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Annual Requirement</u>
2004-2005	\$ 5,300	\$ 50,000	\$ 55,300
2005-2006	<u>2,650</u>	<u>50,000</u>	<u>52,650</u>
	<u>\$ 7,950</u>	<u>\$ 100,000</u>	<u>\$ 107,950</u>



**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

September 8, 2004

Township Board  
Little Traverse Township  
Emmet County, Michigan



In planning and performing our audit of the cash basis financial statements of Little Traverse Township for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Little Traverse Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Sinking fund** - To comply with a 1987 water system purchase agreement, the Water Utility Fund is required to reserve in a sinking fund, a portion of annual service charges for use in future repair and replacement of system assets. At March 31, 2004, the sinking fund should be \$513,713; however, the Township was not able to restrict any funds. We suggest that the Township formalize a plan to accumulate funds necessary to meet the sinking fund requirements.

**Restricted cash** - The 1993 special assessment bond ordinance requires that all collections of principle and interest shall first be applied to the debt allocated to each district and any excess may then be used for construction. At March 31, 2004, the restricted cash should be \$120,000; however, the Township was only able to restrict \$73,762. We suggest that the Township formalize a plan to accumulate funds necessary to meet the ordinance requirements.

**Deficit retained earnings** - The water fund has a deficit-retained earnings of \$294,694. The Uniform Budgeting Act(P.A. 621) prohibits such deficits. We recommend the Township adopt a plan to correct this deficit and file the deficit elimination plan with the State of Michigan as soon as possible.

This report is intended solely for the information and use of the Township Treasurer and Board.

This restriction is not intended to limit distribution of this report, which, upon acceptance by the Township Board, is a matter of public record.

We would like to express our appreciation for the excellent cooperation we received while performing the audit. If we may be of further assistance, please do not hesitate to contact us.

Sincerely,

*Hill Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan